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NEWPASS RESOURCES LTD. 1980

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NEWPASS RESOURCES LTD.

THIRD ANNUAL REPORT

1980.

NEWPASS RESOURCES LTD.
405 - 239 - 8th. Ave. S. W.

Calgary, Alberta.

T2P 1B9

CORPORATE INFORMATION

OFFICERS

President	- Walter Ronald Shatto
Secretary-Treasurer	- Louis Phillip Lees

DIRECTORS

Walter Ronald Shatto
Louis Phillip Lees
Edward Anthony Brownless
Merdith John Shatto

TRANSFER AGENT & REGISTRAR

Canada Trust Company
505 - 3rd. Street S.W.
Calgary, Alberta.
T2P 3E6

HEAD OFFICE

405 - 239 - 8th. Avenue S.W.
Calgary, Alberta.
T2P 1B9

BANK

Bank of Montreal
Main Branch
140 - 8th. Avenue S.W.
Calgary, Alberta. T2P 1B3

SOLICITORS

Jones, Black & Company
3200 Shell Centre
400 - 4th. Avenue S. W.
Calgary, Alberta.
T2P OX9

AUDITORS

Miller, McClelland & Company
1603 - 10th. Avenue S.W.
Calgary, Alberta.
T3C OJ7



NEWPASS RESOURCES LTD.

405 - 239 - 8th. Ave. S.W.
Calgary, Alberta. T2P 1B9

August 15, 1980.

TO THE SHAREHOLDERS:

We are pleased to present our Third Annual Report to our Shareholders of Newpass Resources Ltd.

During the past year we attempted to place our Newpass mine near Austin, Nevada into production using mining contractors. We were not successful due to high operational start up costs and the program was terminated in August 1979.

In October of 1979 we completed a rights offering of 318,100 shares at 50 cents per share to net the Company \$159,050.00 less \$12,000.00 commission.

A second Geophysical Survey of the entire northern extension of the property was undertaken in November. This survey indicated several anomalies and evidence of extension of the vein structures over 3,000 feet to the north of the present workings.

The raise on the Thomas W. Vein from the 490 level to the 340 foot level was completed during the winter and spring months. During April mining of the ore was carried out from the 490 foot level. The first shipment of 32 ozs. concentrate consisting of 85% gold and 15% silver was made in May.

During May and June 800 tons of ore grading .50 ozs. gold per ton were mined from the 490 foot level, milling of this ore is in progress. Assuming a recovery of 80% and \$600.00 per oz. gold, this stockpile should produce a gross revenue of about \$192,000.00.

The leaching plant was overhauled and put into operation during the last week of July. A crushing circuit was installed through the mill crushing unit to process the surface development ore grading .10 to .15 ozs. gold per ton to be processed and added to the leaching dump system. Assuming a grade of .10 ozs. per ton, 90% recovery and \$600.00 per oz. gold the 25,000 ton of development ore piles would produce \$1,350,000.00 in gross revenue for the Company.

Gold sales during our last fiscal year ending February 28, 1980 were from two test runs of the leaching system on 1500 ton pile of uncrushed development ore and some milling test runs.

The results of the mill runs and leach testing during the period to February 28, 1980 are as follows:

	<u>GOLD</u>	<u>PRICE PER OZ.</u>	<u>SILVER</u>	<u>PRICE PER OZ.</u>	<u>SALES</u>
Milling	43. oz.	\$358.33	6.72 oz.	12.76	\$15,494.00
Leaching	58. oz.	491.32	163.10 oz.	23.72	32,365.00
TOTAL	<u>101 oz.</u>		<u>169.82</u>	U.S.	<u>\$47,859.00</u>
				CDN	<u>\$55,039.00</u>

From March 1980 to-date four shipments have been made from limited milling operations which will be continued this summer.

	<u>GOLD</u>	<u>PRICE PER OZ.</u>	<u>SILVER</u>	<u>PRICE PER OZ.</u>	<u>SALES</u>
May 5	27. oz.	\$492.08	4.7 oz.	59.93	\$13,346.00
July 7	30. oz.	660.40	5.3 oz.	73.94	19,886.00
July 25	30. (EST.)		5.0 (EST.)		19,000.00
August 7	30. (EST.)		5.0 (EST.)		19,000.00
TOTAL	<u>117. oz.</u>		<u>20.0 oz.</u>	U.S.	<u>\$71,332.00</u>
				CDN	<u>\$82,032.00</u>

The leaching system has 1500 tons of crushed ore in place and the plant was started up the first week of August. Leaching material grading .16 ozs. to .20 ozs. per ton from the Thomas W. Vein, 140 foot level will be added to the leach pile along with more development dump ore. We should have production from this system in Sept. 1980.

We are presently negotiating with a joint venture partner to explore the northern extension of the property. Results of our negotiations will be reported as soon as any firm agreement is concluded.

We are anticipating cash flow of \$50,000.00 to \$100,000.00 per month from leaching and milling during the fourth quarter and are confident we can secure a joint partner to carry out a large exploration program on the north extension of the property.

ON BEHALF OF THE BOARD OF DIRECTORS.


Louis P. Lees, Secretary, Managing
Director

AUDITORS' REPORT

To the shareholders of
Newpass Resources Ltd.


We have examined the consolidated balance sheet of Newpass Resources Ltd. as at February 29, 1980 and the consolidated statement of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The recovery of the cost of the mining lease and preproduction costs are dependent upon the viability of future operations. The valuation of the royalty interest is dependent upon future royalty income.

In our opinion, subject to the qualifications referred to in the preceding paragraph, these consolidated financial statements present fairly the financial position of the company as at February 29, 1980 and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
July 4, 1980.

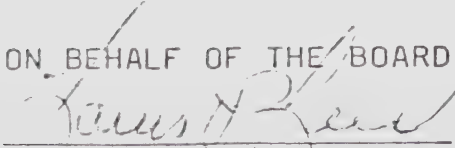

Miller, McClelland & Co.
Chartered Accountants.



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NEWPASS RESOURCES LTD.
(An Alberta Company)
CONSOLIDATED BALANCE SHEET
At February 29, 1980
(in Canadian dollars)

	<u>1980</u>	<u>1979</u>
ASSETS		
CURRENT		
Cash and term deposits (Note 4)	205,794	456,046
Accounts receivable	7,707	10,062
Share subscriptions receivable	-	170,000
	<u>213,501</u>	<u>636,108</u>
MINING LEASE, at cost (Notes 1 & 3)	<u>74,233</u>	<u>74,233</u>
EQUIPMENT, at cost (Note 1)	240,396	159,016
Less accumulated depreciation	29,069	10,821
	<u>211,327</u>	<u>148,195</u>
ROYALTY INTEREST, at cost (Note 5)	<u>402,300</u>	<u>402,300</u>
PREPRODUCTION COSTS (Note 1 & schedule)	<u>797,503</u>	<u>540,768</u>
INCORPORATION COSTS	<u>699</u>	<u>699</u>
	<u><u>1,699,563</u></u>	<u><u>1,802,303</u></u>
LIABILITIES		
CURRENT		
Bank loan (Note 4)	112,972	388,972
Accounts payable	60,846	46,636
	<u>173,818</u>	<u>435,608</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 2)		
Authorized		
5,000,000 common shares at a maximum consideration of \$ 3,000,000 without nominal or par value		
Issued		
3,499,100 shares (1979 -		
3,181,000 shares)	1,525,745	1,366,695
	<u>1,699,563</u>	<u>1,802,303</u>
ON BEHALF OF THE BOARD		
	Director	
	Director	

See accompanying notes.

NEWPASS RESOURCES LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended February 29, 1980

(in Canadian dollars)

	<u>1980</u>	<u>1979</u>
Funds provided from:		
Proceeds from sale of shares	<u>159,050</u>	<u>674,100</u>
Funds applied to:		
Acquisition of royalty interest cost	-	402,300
Less: Shares issued in payment	-	<u>402,300</u>
	-	-
Purchase of equipment	81,379	101,606
Additional payment on mining lease	-	22,600
Preproduction costs, before depreciation allowance	<u>238,488</u>	<u>429,450</u>
Total funds applied	<u>319,867</u>	<u>553,656</u>
Increase (Decrease) in working capital	(160,817)	120,444
Working capital, beginning of year	<u>200,500</u>	<u>80,056</u>
Working capital, end of year	<u><u>39,683</u></u>	<u><u>200,500</u></u>

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended February 29, 1980

1. ACCOUNTING POLICIES

- a) The company was incorporated under the laws of the Province of Alberta on November 12, 1976. The main activity of the Company and its wholly-owned subsidiary is the development of a mining lease.
- b) The consolidated financial statements include the accounts of the Company's wholly-owned subsidiary, Newpass Resources, Inc., which company was incorporated under the laws of the State of Nevada, U.S.A. on January 21, 1977.
- c) Foreign currencies are translated to Canadian dollars as follows:

Current assets and current liabilities at approximate year-end exchange rates, other assets at approximate exchange rates prevailing at the dates of the transactions. Exchange gains or losses on conversion between currencies are included in preproduction costs.
- d) The Company depreciates its equipment on a 10% straight-line basis.
- e) Amortization of preproduction and mining lease costs, will commence when the mine becomes fully operational.

2. SHARE CAPITAL

Shares were issued as follows:

	<u>Year Ended</u> <u>February 29, 1980</u>		<u>Year Ended</u> <u>February 28, 1979</u>	
<u>Consideration</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Cash	318,100	\$ 159,050	882,000	\$ 650,100
Royalty interest	-	-	270,000	402,300
Commission	-	-	24,000	24,000
	<u>318,100</u>	<u>\$ 159,050</u>	<u>1,176,000</u>	<u>\$ 1,076,400</u>

The 318,100 shares were issued in terms of a rights offering, during October 1979. The basis of the offering was 1 share at \$0.50, for each 10 shares held.

NEWPASS RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended February 29, 1980

2. SHARE CAPITAL (cont'd)

The underwriter to the rights offering was paid an underwriting commission of \$12,000.

OPTIONS

The options to purchase 336,000 shares at \$1 a share were not exercised by February 29, 1980. By mutual consent, the expiry date was extended to February 28, 1981.

An employee has an option to purchase 5,000 common shares within 365 days after April 30, 1979, 5,000 common shares within 365 days after April 30, 1980 and 5,000 common shares within 365 days after April 30, 1981, at \$1 per share. With limited exceptions, the option is only exercisable if the employee is in the employ of the company at the time of exercising the option.

ESCROW

Of the issued common shares, 762,000 are held in escrow and are not to be released without the consent of the Alberta Securities Commission.

POOLING AGREEMENT

The 52,260 common shares, previously voluntarily pooled, are no longer pooled.

3. MINING LEASE

The Company's wholly-owned subsidiary, Newpass Resources, Inc., entered into an agreement to lease eight patented and twenty unpatented lode mining claims and one patented mill site, all located in the Newpass Mining District, State of Nevada, U.S.A. The lease expires on December 31, 1980 but the Company has an option to renew the lease for an additional four years, or to purchase the property for \$400,000 U.S. funds and pay a royalty interest of 1% of net proceeds from the property.

The lessee has undertaken to:

- a) Pay a graduated royalty in U.S. funds, ranging from 6% to 10% of net smelter returns, or on the market value, immediately prior to processing, of any ores processed other than by smelter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended February 29, 1980

3. MINING LEASE (cont'd)

- b) Assume the lessor's liability under its outstanding loan with the Office of Minerals Exploration, United States of America Department of the Interior. The principal and interest are payable by means of a 5% royalty of the gross proceeds from the production sold from the "Superior Vein", as defined. Royalty payments are applied first to pay accrued interest and thereafter, to reduce the principal balance. The principal outstanding is \$64,009 U.S. funds and bears simple interest at 8 1/2% on \$54,469 and 10% on \$9,540. As at February 29, 1980, accrued interest aggregated \$31,343.
- c) Pay for the use of the lessor's mining equipment, \$1 per ton of ores produced, to a maximum of \$10,000 U.S. funds. At February 29, 1980 an amount of \$394 had been paid.
- d) Pay \$8,000 U.S. funds, at the rate of \$0.50 per ton of ore produced from the property and processed through the ball mill, for the purchase of a third party's interest in such mill. At February 29, 1980 an amount of \$157 had been paid.

The company may terminate the lease agreement and release itself from any further obligations by giving written notice of its intention to discontinue operations and, consequently, forfeiting any right to compensation for any permanent improvements to the property.

4. TERM DEPOSITS

Term deposits of \$155,000 have been lodged as collateral in respect of the bank loan.

5. ROYALTY INTEREST

The company purchased a 6% royalty interest in the Blazing Star Mine, State of California, U.S.A. for \$402,300. The debt was discharged by issuing 270,000 common shares as fully paid. The company will receive all royalties up to \$350,000 U.S. funds in addition to the recovery of certain expenditures relative thereto. At that stage, additional royalties will be shared with the vendors of the royalty interest and one-half of the royalty interest will revert back to them.

NEWPASS RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended February 29, 1980

5. ROYALTY INTEREST (cont'd)

Within one year thereafter, the vendors have the individual right to convert their one-half royalty interest to 150,000 common shares, or 270,000 common shares with the proviso that the company is guaranteed \$351,000 U.S. funds, payable in cash, or from the proceeds of royalty receipts.

6. RELATED PARTY TRANSACTIONS

During the fiscal year ended February 29, 1980 the following related party transactions transpired with the company's directors or companies controlled by those directors:

	<u>1980</u>	<u>1979</u>
Administration expenses & fees	\$ 29,234	\$ 33,387
Lease of equipment	-	7,390
Contract work	8,892	12,459
	<u>\$ 38,126</u>	<u>\$ 53,236</u>

7. ROYALTY PAYABLE

In consideration of arranging financing on behalf of company, the company has assigned a royalty interest of 2% of net smelter returns to the assignee, as well as the second right of refusal should the company decide to dispose of its interest in any of its claims.

NEWPASS RESOURCES LTD.

SCHEDULE OF CUMULATIVE PREPRODUCTION COSTS

At February 29, 1980

(in Canadian dollars)

	<u>1980</u>	<u>1979</u>
Administration and office expenses	73,165	39,082
Insurance	22,624	11,650
Private placement expenses	37,857	25,857
Professional fees	29,814	19,256
Trust company and stock exchange charges	11,439	8,337
Total administration	<u>174,899</u>	<u>104,182</u>
Depreciation	29,069	10,821
Drilling costs	38,662	36,160
Equipment rental	453	361
Geological and assaying costs	72,032	14,007
Leach installation and testing	29,465	26,267
Leasing of equipment	-	37,442
Mill renovations	84,005	55,973
Mine administration expenses	53,772	38,998
Mine maintenance and supplies	94,082	48,526
Mine surface work	93,652	41,213
Superior Vein Development	21,555	21,555
Thomas W. Vein Development	167,913	92,102
Trenching costs	24,324	24,324
	<u>708,984</u>	<u>447,749</u>
Gold sales	63,476	8,438
Less Royalties paid	5,628	506
	<u>57,848</u>	<u>7,932</u>
Royalty income	28,532	3,231
Total revenue	<u>86,380</u>	<u>11,163</u>
Total preproduction costs	<u><u>797,503</u></u>	<u><u>540,768</u></u>

See accompanying notes.

